

April 8, 2005

Mr. Lyons Gray
President, Downtown Winston-Salem Partnership
500 W. 4th Street
Suite 101
Winston Salem, NC 27101-2782

Dear Mr. Gray:

Thank you for your letter to Acting Administrator Stephen L. Johnson dated January 12, 2005, in which you transmit on behalf of the Environmental Financial Advisory Board (EFAB), the white paper entitled *Useful Life Financing of Environmental Facilities*. I appreciate the opportunity to review and examine any input from EFAB. EFAB has proven since its creation in 1989 that its contributions to EPA's efforts to meet the growing environmental financial needs of the 21st century are always valuable and much needed.

The white paper addresses the issue of amortization periods for the financing of environmental infrastructure. Specifically, it examines the potential benefits of amortizing debt for such facilities over periods that are reflective of the useful lives of the financed facilities, in place of the traditional method of amortizing debt over a shorter period of time. The paper concludes that use of amortization periods consistent with the useful life of the facility can make financing such facilities more affordable in the short-term, reducing annual debt service costs by 10 percent to 34 percent. Lastly, the paper concludes that these savings can be used to fund asset management or other capital projects resulting in even greater savings for current and future ratepayers.

The Agency is working in partnership with the States, water utility industry and other stakeholders to ensure sustainability of water and wastewater systems. This includes promoting water efficient products, full cost pricing of water and wastewater services, management techniques for reducing long-term costs and improving performance and expanding watershed approaches to identify effective local infrastructure solutions. EPA refers to these four focus areas as the four pillars of sustainability, as noted in your paper.

Promoting useful life financing is one of four pillars in EPA's strategy to achieve sustainable infrastructure. Specifically, EPA's advocacy of better management practices should include examining different amortization periods for new infrastructure. Full cost pricing will include an examination of current financing practices and its relationship to rate structures.

While I understand that useful life amortizing would reduce the year-to-year debt service payments, I believe it is important to further study current industry practices. The paper mentions that current industry practice is to use debt amortization periods far shorter than the useful life of the project. Further study should be conducted into the reasons short term financing is used instead of useful life financing and whether useful life financing can be applied in situations where a single bond is used to finance multiple pieces of a project with different useful lives. A conference of industry representatives could be convened by EFAB to examine in greater detail the situation on the ground, how a more efficient system of financing infrastructure can be implemented, and how this can be dovetailed with the four pillars of sustainability.

Thank you again for providing this valuable input. I encourage you to continue examining innovative methods for closing the nation's water infrastructure funding gap, and look forward to hearing recommendations in the future. If you have any questions or wish to speak further about this issue, please contact James A. Hanlon, Director, Office of Wastewater Management, at (202) 564-0748.

Sincerely,

/s/ Benjamin H. Grumbles

Benjamin H. Grumbles
Assistant Administrator

April 8, 2005

Mr. A. Stanley Meiberg
Deputy Regional Administrator
U.S. EPA, Region IV
61 Forsythe Street, SW
Atlanta, GA 30303

Dear Mr. Meiburg:

Thank you for your letter to Acting Administrator Stephen L. Johnson dated January 12, 2005, in which you transmit on behalf of the Environmental Financial Advisory Board (EFAB), the white paper entitled *Useful Life Financing of Environmental Facilities*. I appreciate the opportunity to review and examine any input from EFAB. EFAB has proven since its creation in 1989 that its contributions to EPA's efforts to meet the growing environmental financial needs of the 21st century are always valuable and much needed.

The white paper addresses the issue of amortization periods for the financing of environmental infrastructure. Specifically, it examines the potential benefits of amortizing debt for such facilities over periods that are reflective of the useful lives of the financed facilities, in place of the traditional method of amortizing debt over a shorter period of time. The paper concludes that use of amortization periods consistent with the useful life of the facility can make financing such facilities more affordable in the short-term, reducing annual debt service costs by 10 percent to 34 percent. Lastly, the paper concludes that these savings can be used to fund asset management or other capital projects resulting in even greater savings for current and future ratepayers.

Clean and safe water is critical for human and ecosystem health. Over the past 20 years communities have spent more than \$1 trillion (in 2001 dollars) on drinking water treatment and supply and wastewater treatment and disposal. However, this infrastructure is aging and as a nation, we will be challenged to ensure that we can address the infrastructure needs of the future. EPA has estimated that a funding gap between projected investment needs and projected spending for drinking water infrastructure will be between \$0 and \$267 billion in a no revenue growth scenario and between \$0 and \$205 billion in a revenue growth scenario. The funding gap for wastewater infrastructure is estimated to be between \$73 and \$177 billion in a no revenue growth scenario and between \$0 and \$94 billion in a revenue growth scenario. Utilities and their local communities must provide the primary sources of funding to meet those needs. While federal and state funding can help water utilities meet future needs, other

strategies will be necessary for addressing the challenges we face in maintaining our nation's water infrastructure.

The Agency is working in partnership with the States, water utility industry and other stakeholders to ensure sustainability of water and wastewater systems. This includes promoting water efficient products, full cost pricing of water and wastewater services, management techniques for reducing long-term costs and improving performance and expanding watershed approaches to identify effective local infrastructure solutions. EPA refers to these four focus areas as the four pillars of sustainability, as noted in your paper.

Using useful life financing is an approach that falls within the aegis of the four pillars. Specifically, EPA's advocacy of better management practices should include examining different amortization periods for new infrastructure. Full cost pricing will include an examination of current financing practices and its relationship to rate structures.

While I understand that useful life amortizing would reduce the year-to-year debt service payments, I believe it is important to further study current industry practices. The paper mentions that current industry practice is to use debt amortization periods far shorter than the useful life of the project. Further study should be conducted into the reasons short term financing is used instead of useful life financing and whether useful life financing can be applied in situations where a single bond is used to finance multiple pieces of a project with different useful lives. A conference of industry representatives could be convened by EFAB to examine in greater detail the situation on the ground, how a more efficient system of financing infrastructure can be implemented, and how this can be dovetailed with the four pillars of sustainability.

Thank you again for providing this valuable input. I encourage you to continue examining innovative methods for closing the nation's water infrastructure funding gap, and look forward to hearing recommendations in the future. If you have any questions or wish to speak further about this issue, please contact James A. Hanlon, Director, Office of Wastewater Management, at (202) 564-0748.

Sincerely,

/s/ Benjamin H. Grumbles

Benjamin H. Grumbles
Assistant Administrator